ENDURO, LLC

Current Stock Market Outlook For 2018

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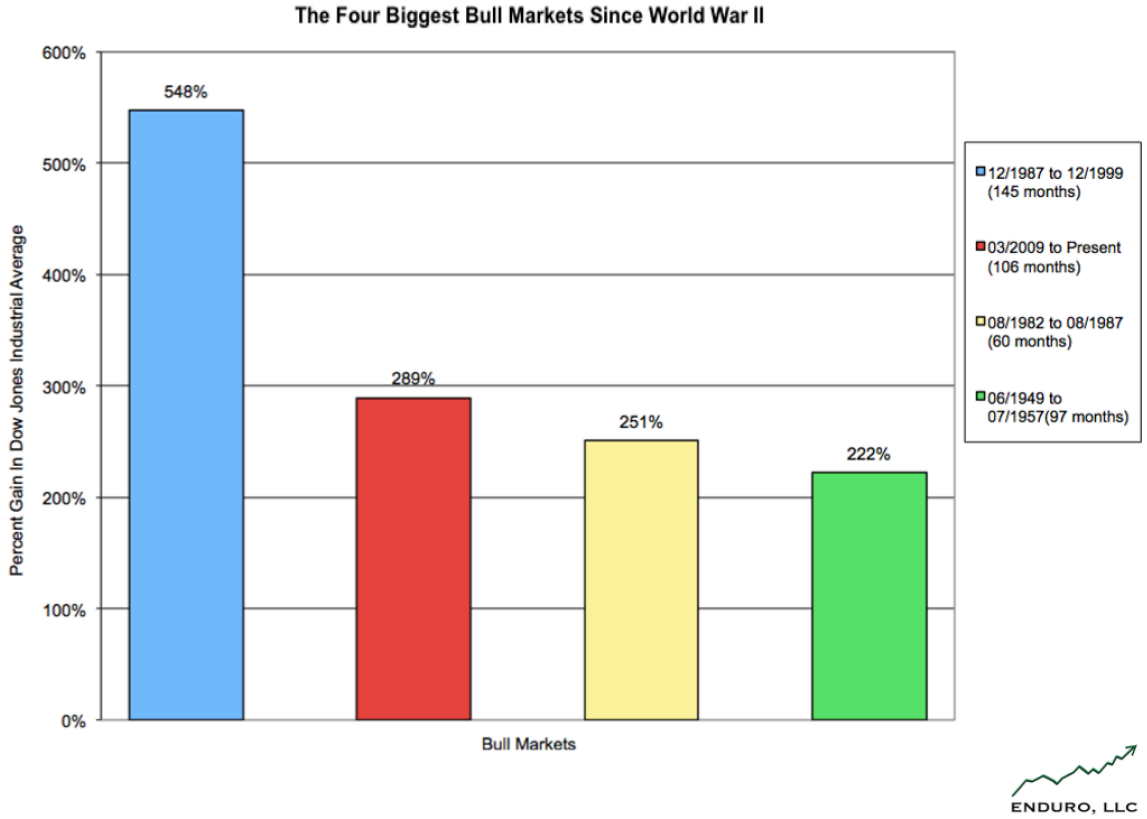
The street remains bullish

The United States is currently experiencing its second longest bull market in history. Market valuations and risk are becoming lofty but many analysts believe this bull still has legs to run. For example, Mary Ann Bartels, head of Merrill Lynch Wealth Management says, "If the earnings for companies in the S&P 500 expand in 2018, and if interest rates don't rise too much and stay near their historic lows, we think the equity market can continue to advance." David Lafferty, chief market strategist at Natixis Asset Management says, "The market will continue to grind higher" and Liz Ann Sonders of Charles Schwab articulates that an economic recession is not on the horizon for 2018.

Figure 1: Bull Market Returns and Calendar Months



Enduro's S&P estimates for 2018

Enduro believes the market has not reached euphoric levels as of yet. We estimate that the S&P 500 will increase from 2740 (January 10, 2018) to 2950, delivering investors a 7.66% return for 2018. Nevertheless, we are only 12 days into January and the S&P 500 stands at 2782. It has already surpassed Fidelity's 2018 estimate of 2730 and falls within Bank of America's approximated range of 2760-2860.

Bull case: The tortoise leads the race

The economy is slowly moving in a positive direction, which actually helps the bull's case. Morgan Stanley believes the U.S. economy will grow by 2.5 percent in 2018. This is equivalent to 2017's GDP growth rate and bests 2016's 2.1%.

Modest economic growth has helped the economy stay out of its typical boom-and-bust cycle thus far. As a result, the expansion phase of the business cycle has lengthened.

The US economy continues to shine

The US unemployment rate has declined from 10% in 2009 to 4.1% 2017. This implies that the US is near full employment. Also, until conditions signaling an economic contraction arise, prospects for corporate America remain vibrant. Thomson Reuters projects the S&P 500 will gain 11% in corporate profits over 2018. Furthermore, corporate tax cuts also increases the chance of double-digit earnings growth for 2018.

The following factors also favor the equity market: 1. Corporate earnings growth is stemming from revenues as opposed to cost-cuts and repurchased shares. 2. Corporations are starting to spend capital on property, plant, equipment, R&D, and M&As. These factors are great for businesses and economic growth.

Lastly, the bull market should advance if the Fed does not raise interest rates above expected levels. The Fed is projected to increase short-term interest rates 2 to 3 times in 2018. This should place the federal funds rate in the range of 2% to 2.25%.

Bull market risks

A catalyst that punctures the foundation of our current stock market cycle is needed to end this bull market. Risks pertaining to this bull market comprise of a surprise increase in inflation due to accelerating wage growth from a tight labor market. This will cause the Fed to raise interest rates higher than expected in order to keep pace with inflation. Hence, tighter monetary policy can elevate market risk and volatility.

Talks of war with North Korea, political uncertainties in Washington, and midterm elections are potentially exacerbating market risk. Also, stock valuations are extremely elevated. The PE ratio of the S&P 500 is currently 26, which is 44% higher than the average P/E of the S&P during a usual peak market phase.

Additional market risks include low market volatility in 2017 and a flattening yield curve. For example, market volatility was non-existent in 2017. This can encourage excessive risk taking in 2018 and push markets into euphoria. Also, if the yield curve continues to flatten, then an inverted yield curve may be on the horizon, which is an unfavorable environment for equities.

Enduro, LLC's 2018 Portfolio

Enduro 2018 Portfolio 1/10/2018			
Equities	**Price**	**Action**	**% of Portfolio**
SCHD	$52.00	Long	10.5%
SCHB	$66.13	Long	10.5%
SCHG	$73.18	Long	11.0%
SCHV	$55.65	Long	11.3%
VB	$152.00	Long	5.2%
Equities % of Portfolio			**48.5%**
Fixed Income	**Price**		
US Treasury STRIPS	98.6		
Fixed Income % of Portfolio			**17.5%**
CASH			
Cash % of Portfolio			**34.0%**

Equities

Enduro is currently bullish US equities. We favor large cap ETFs and select small cap stocks. Enduro is currently long a robust mix of value stocks (ticker symbol: SCHV), large cap growth stocks (SCHG), high dividend paying stocks (SCHD), and a broad market fund (SCHB). Note worthy, value stocks lagged during the S&P's 22% gain in 2017 and have upside potential for 2018.

Fixed Income

Investors beware; the US has not experienced a meaningful pull back since the Nasdaq's 14.5% drop in February of 2016. Treasury and other high-quality bonds balance portfolios and buffer market volatility by moving in opposite direction of stocks during phases of contraction. Enduro holds 17.5% of its assets in US Treasury STRIPS due in November 2018, as a net of safety.

Cash

Enduro's current cash position is 34% of total assets. We plan on using available cash to invest in our upcoming picks for 2018.

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